Fresh Spreads Rise, While Outstanding Continue to Tighten

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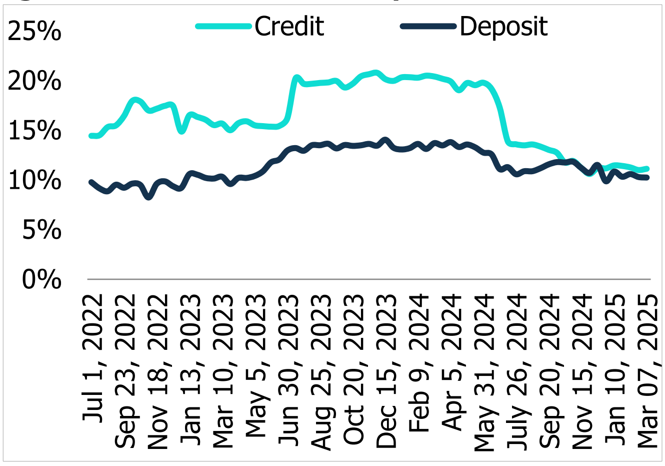
Synopsis

- In February 2025, the spread between the outstanding (o/s) weighted average lending rate (WALR – Lending Rate) and the weighted average domestic term deposit rate (WADTDR – Deposit Rate) for scheduled commercial banks (SCBs) continued to tighten. It compressed by seven basis points (bps) m-o-m to 2.76%.
    - The SCB's lending rate on o/s rupee loans declined by seven bps m-o-m and stood at 9.78%. This reduction in lending rates can be attributed to a decrease in the share of high-yield asset classes, such as unsecured personal loans and microfinance institutions (MFIs). In contrast, the deposit rate on o/s rupee term deposits remained flat m-o-m and stood at 7.02%.
- The o/s spread between lending and deposit rates for PSBs has been steadily narrowing over the past year, decreasing by eight bps m-o-m to 1.94% as of February 2025. Similarly, PVBs have seen their spread decrease by seven bps m-o-m, standing at 3.82%.
- Private Banks (PVBs) and Public Sector Banks (PSBs) experienced lending rate decreases of six bps and seven bps, respectively, resulting in rates of 10.75% and 9.10% as of February 2025. While both PSBs and PVBs experienced a marginal increase in outstanding deposit rates by one bps to 7.16% and 6.93%, respectively, the outstanding deposit rates for SCBs remained flat m-o-m at 7.02% due to a seven bps drop in foreign banks (FBs) to 6.11%.
- In March 2025, the one-year median Marginal Cost of Funds-based Lending Rate (MCLR) declined by five basis points to 9.00%, majorly due to foreign banks (FBs), which experienced a m-o-m decrease of 14 bps, reaching 7.78%, while PSBs and PVBs remained unchanged at 9.08% and 10.00%, respectively.

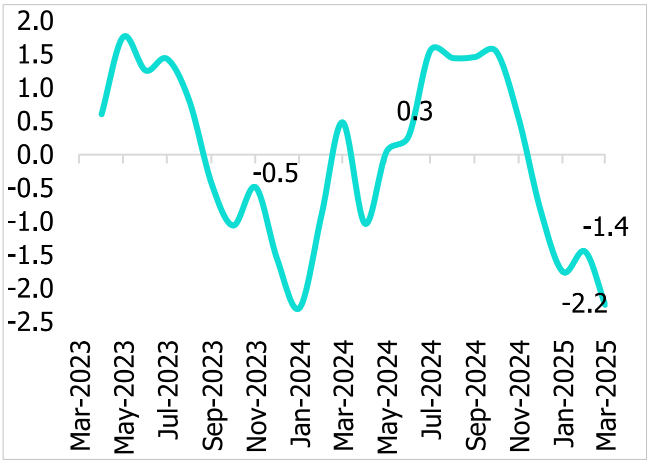
Slower Credit Offtake Aligns with Deposit Accumulation, while Liquidity Tightening Continues

Figure 1: Credit Offtake vs Deposit Growth



Source: CMIE, RBI; Note: Data post-HDFC Merger in July 2024

Figure 2: Monthly Bank System Liquidity (Rs lakh cr)



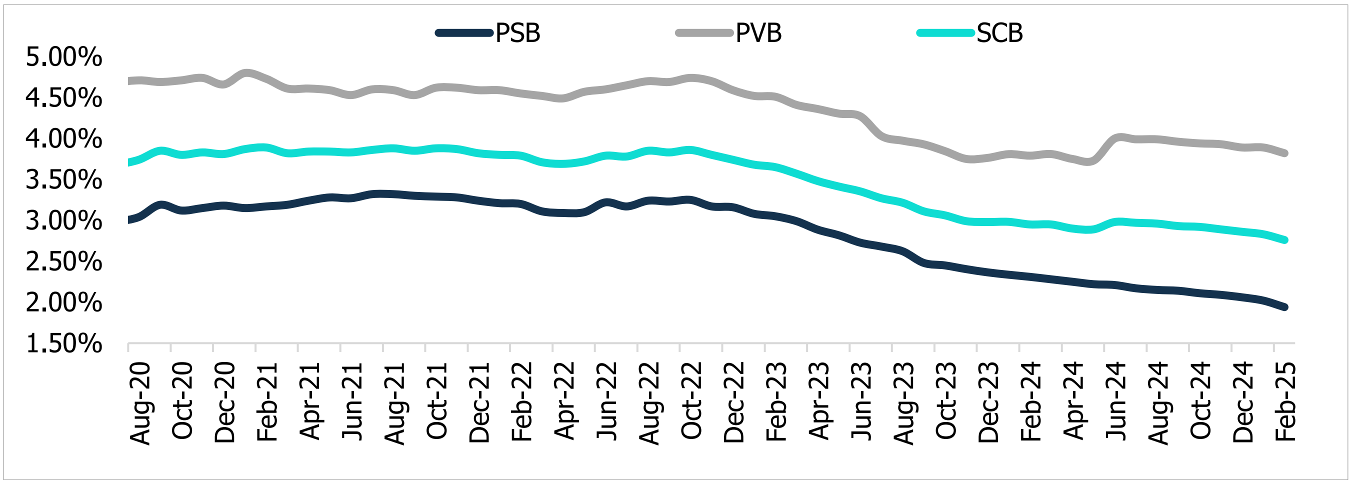
Source: RBI, CMIE

- Credit picked up marginally, while deposit growth slowed for March 07, 2025. Credit rose by 11.1% y-o-y for the fortnight ending March 07, 2025, yet it came in significantly slower than the previous year's growth of 16.5% (excluding the impact of the merger). This slowdown can be attributed to a higher base effect, as well as RBI's commentary on a high credit-to-deposit ratio. Meanwhile, deposits reached Rs 225.1 lakh crore as of March 07, 2025 and grew by 10.2% y-o-y, lower compared to the 13.1% growth (excluding the merger impact) recorded last year.

- As of the end of March 2025, the banking system is in a liquidity deficit of Rs 2.2 lakh crores due to significant FPI outflows. To address this, the RBI has implemented measures such as increasing the tenor and amount of VRR auctions, conducting currency swap auctions, and engaging in OMO purchases. These efforts, along with government spending and swap auctions, have helped improve liquidity.

O/s Spread Saw a Marginal Decline in February

Figure 3: Evolution of Spreads (Outstanding)



Source: RBI

- As of February 2025, the SCBs o/s spread between lending and deposit rates was 2.76%, reflecting a slight m-o-m decrease of seven bps as banks were able to generate lower yields on their lending.
- The o/s spread for PSBs and PVBs has been compressing over the past months, reducing again by eight and seven bps, reaching 1.94% and 3.82%, respectively.

Outstanding Business: Deposit Rates Marginally Rise, Lending Rates Decline

Figure 4: Evolution of WALR O/s Lending Rate

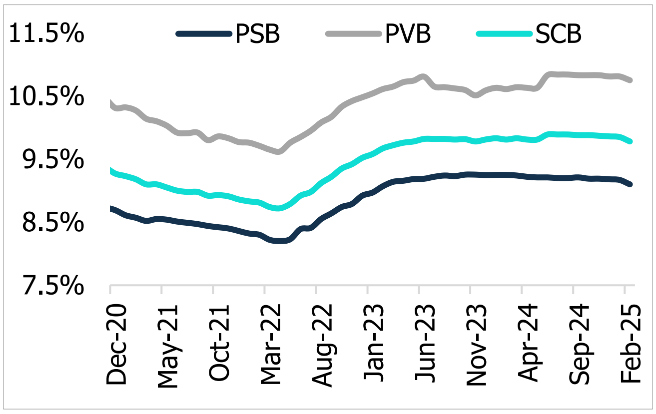
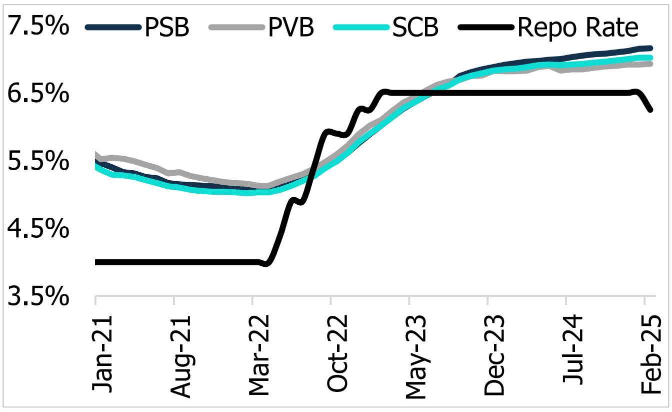


Figure 5: Evolution of WADTDR O/s Deposit Rate



Source: RBI

- As of February 2025, the outstanding lending rates for SCBs and PSBs declined by seven bps m-o-m to 9.78% and 9.10%, respectively, while PVBs dropped by six bps to 10.75%. This decline is driven by a reduction in high-yield assets like unsecured personal loans and MFIs, along with RBI's repo rate cut to 6.25%, which has led banks to adjust their lending rates. Meanwhile, outstanding deposit rates saw a marginal one bps increase for PSBs and PVBs, reaching 7.16% and 6.93%, respectively, while SCBs remained flat at 7.02%.

Figure 6: Movement in 1-Year MCLR (Median)

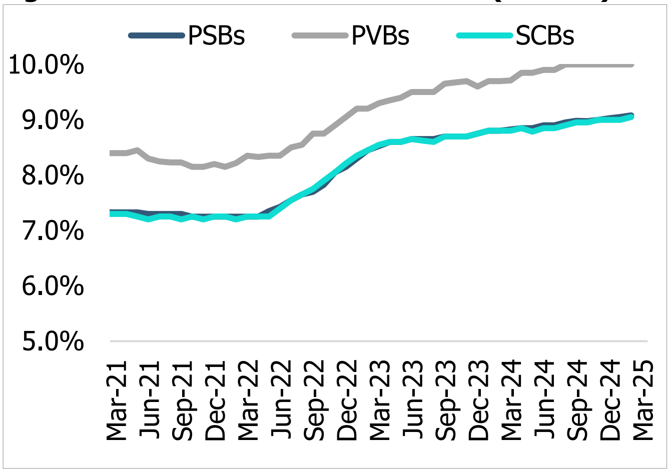
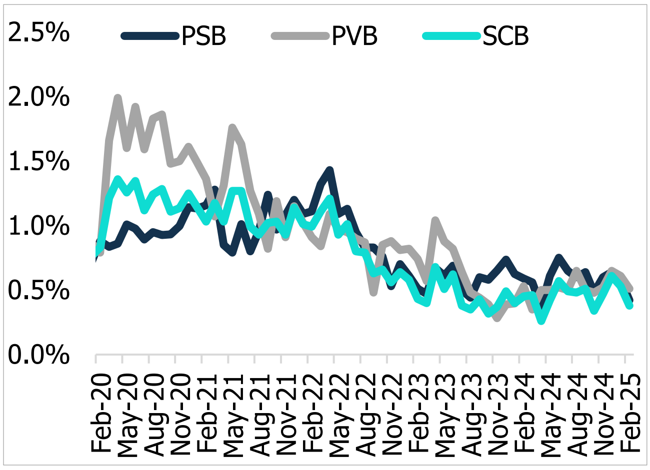


Figure 7: Lending Rate: O/s vs Fresh



Source: RBI

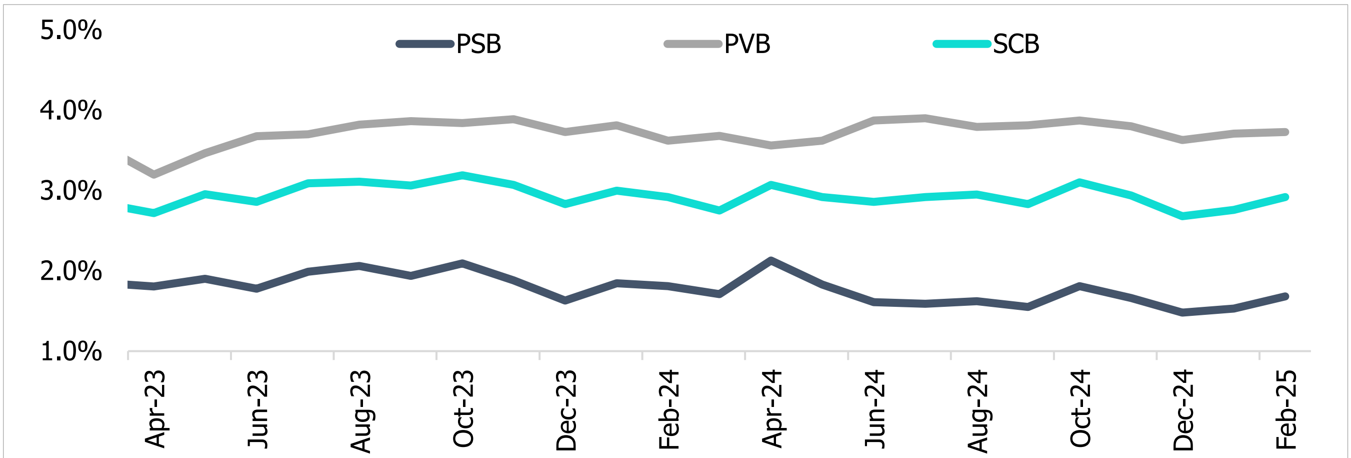
- On a m-o-m basis in March 2025, the one-year median MCLR decreased by five bps and stood at 9.00%, attributed to policy rate adjustments. In contrast, on a y-o-y basis, the one-year median MCLR of SCBs rose by 20 bps, and when compared to pre-pandemic levels, the MCLR median for SCBs is higher by 80 bps (compared with Feb 20).

Figure 8: MCLR Rates (in %) witnessed a Downtick on a m-o-m basis

Banks	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	YoY
Public Sector Banks														
BoB	8.80	8.85	8.85	8.90	8.95	8.95	8.95	8.95	9.00	9.00	9.00	9.00	9.00	0.20
BoI	8.85	8.85	8.85	8.90	8.95	8.95	8.95	8.95	9.00	9.00	9.05	9.05	9.05	0.20
BoM	8.80	8.80	8.85	8.95	8.95	8.95	9.00	9.05	9.05	9.05	9.10	9.15	9.15	0.35
Canara	8.90	8.90	8.90	8.95	9.00	9.00	9.00	9.05	9.05	9.10	9.10	9.10	9.10	0.20
CBI	8.75	8.75	8.75	8.85	8.85	8.85	8.95	8.95	8.95	9.00	9.00	9.00	9.00	0.25
Indian	8.85	8.85	8.85	8.95	8.95	8.95	9.00	9.00	9.00	9.05	9.05	9.10	9.10	0.25
IOB	8.80	8.85	8.90	8.95	9.00	9.00	9.00	9.00	9.05	9.05	9.10	9.10	9.10	0.30
PSB	8.95	8.95	8.95	9.05	9.10	9.10	9.10	9.15	9.15	9.20	9.20	9.20	9.20	0.25
PNB	8.80	8.80	8.80	8.85	8.90	8.90	8.90	8.95	8.95	9.00	9.00	9.05	9.05	0.25
SBI	8.65	8.65	8.65	8.85	8.95	8.95	8.95	8.95	9.00	9.00	9.00	9.00	9.00	0.35
UCO	8.85	8.85	8.85	8.90	8.95	8.95	9.00	9.00	9.00	9.05	9.05	9.10	9.10	0.25
UBI	8.90	8.90	8.90	8.90	8.95	8.95	8.95	8.95	9.00	9.00	9.00	9.00	9.00	0.10
Private Sector Banks														
HDFC	9.30	9.30	9.30	9.40	9.45	9.45	9.45	9.45	9.45	9.45	9.40	9.40	9.40	0.10
ICICI	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	0.00
Axis	9.30	9.30	9.30	9.30	9.35	9.35	9.35	9.35	9.35	9.45	9.40	9.40	9.40	0.10
IndusInd	10.40	10.40	10.45	10.45	10.55	10.55	10.55	10.55	10.55	10.55	10.55	10.55	10.45	0.05
Kotak	9.45	9.45	9.45	9.50	9.55	9.55	9.55	9.55	9.55	9.55	9.55	9.55	9.55	0.10
Yes	10.60	10.60	10.60	10.50	10.50	10.50	10.60	10.60	10.60	10.60	10.60	10.65	10.65	0.05

Source: RBI

Figure 9: Evolution of Spreads (Fresh)



Source: RBI

- The fresh spreads of SCBs rose by 16 bps m-o-m, reaching 2.92% in February 2025. PVBs and PSBs experienced increases in their spreads of two and 15 bps m-o-m, achieving 3.73% and 1.68%, respectively. PVBs maintain a higher spread, upholding a higher lending rate than PSBs.
- For SCBs, as of February 2025, the fresh spread is higher than the outstanding spread, indicating that banks were pricing new loans at relatively higher spreads compared to the previous month. This increase in fresh spread is primarily due to foreign banks, which have impacted the overall decrease. In contrast, both PSBs and PVBs have higher outstanding spreads compared to their fresh spreads.

Fresh Lending Rates witness an Uptick, while Deposit Rates witness a Downtick

Figure 10: Evolution of Lending Rate Fresh Loans

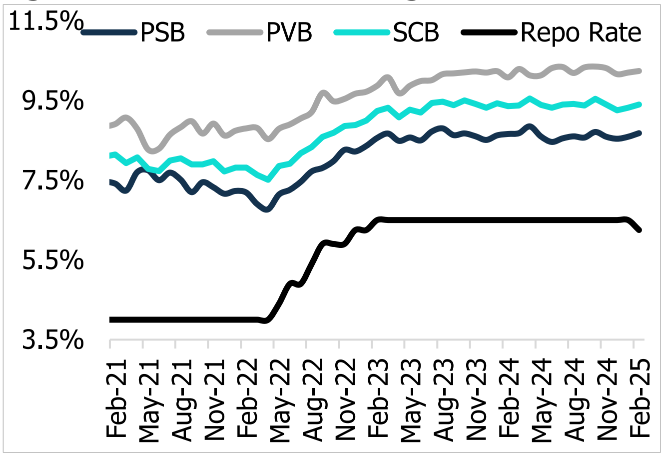
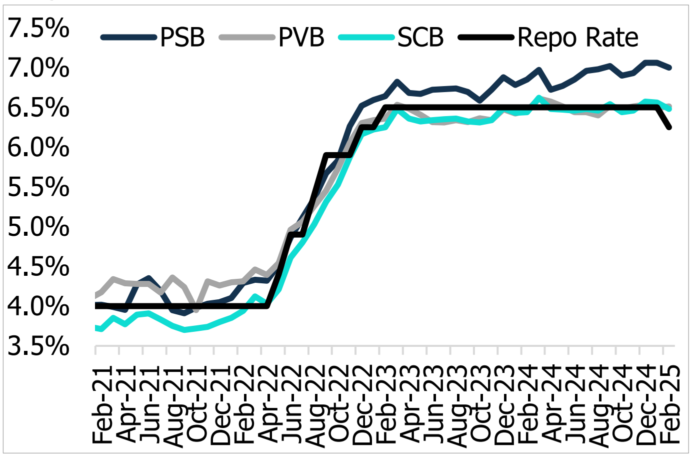


Figure 11: Evolution of Deposit Rate Fresh



Source: RBI

- The lending rates on fresh loans for SCBs increased by eight bps m-o-m, settling at 9.40%. PVBs and PSBs saw an increase of four bps and nine bps, respectively, standing at 10.24% and 8.68% as of February 2025.
- Conversely, fresh deposit rates for SCBs reduced by eight basis points m-o-m, reaching 6.48%. PSBs saw a decrease of six bps to 7.00%, while PVBs saw a marginal increase of two bps at 6.51% as of February 2025.
- Compared to April 2022, the repo rate rose by 245 bps to 6.25%. By February 2025, new lending and deposit rates had surged by 189 bps and 245 bps, respectively, landing at 9.40% and 6.48%, compared to their figures in April 2022.

Private banks have a higher share of EBLR loans, while Public banks provide more loans in MCLR

Figure 12: PSBs

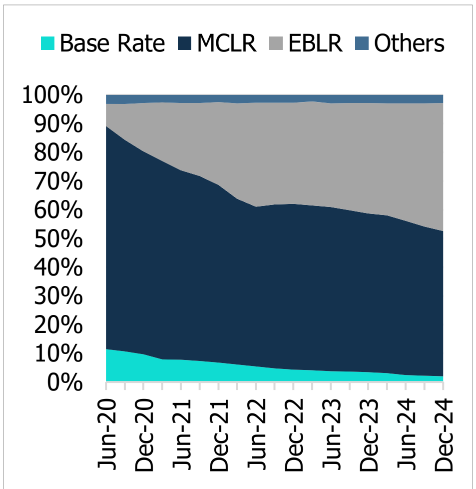


Figure 13: PVBs

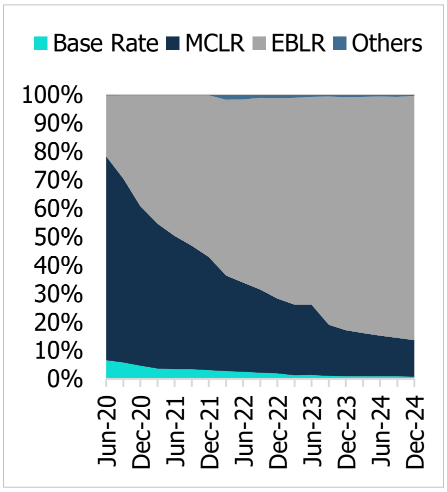
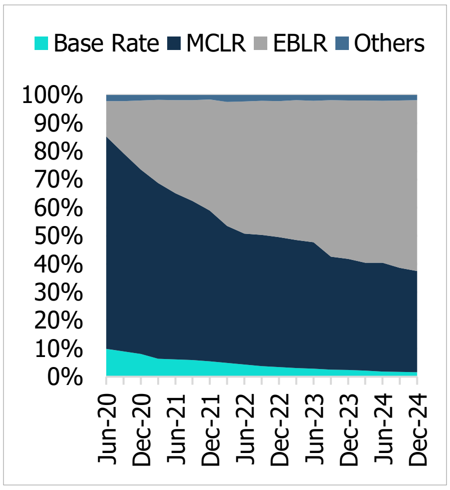


Figure 14: SCBs



Source : RBI, Note: Data post HDFC Merger in July

The share of External Benchmark Lending Rate (EBLR)- linked loans in total outstanding floating-rate rupee loans of SCBs stood at 60.6% in September 2024 (compared to 56.2% in December 2023), while that of MCLR-linked loans was 35.9% in December 2024 (compared to 39.4% in December 2023). EBLR includes both repo-linked and treasury bill loans. Furthermore, compared to PSBs, PVBs have a higher share of EBLR (EBLR share as of Dec-24: PVBs, 85.9%; PSBs, 44.6%). Hence, the transmission of lending rates is faster in PVBs compared to PSBs. Furthermore, with the recent rate cut, lending rates in PVBs are expected to decline more rapidly than in PSBs, resulting in a quicker reduction in borrowing costs for PVB customers.

Conclusion

In February 2025, outstanding spreads continued to tighten as lending rates on existing loans declined while deposit rates remained steady. Conversely, fresh spreads expanded due to higher pricing on new loans, majorly due to foreign banks. For SCBs, the fresh spread was higher than the outstanding spread, indicating that banks were pricing new loans at relatively higher spreads compared to the previous month. The credit-to-deposit ratio remained elevated at 80.5% as of March 07, 2025, majorly due to the liquidity pressures in the banking system and deposit growth lagging credit growth. The anticipated repo rate cut in the April Monetary Policy meeting is expected to influence both lending and deposit rates for SCBs. While lending rates are likely to decrease more rapidly following the rate cut, deposit rates are expected to remain relatively high initially to address concerns about the elevated credit-to-deposit ratio before eventually adjusting. Additionally, the higher share of EBLR-linked loans (including both repo-linked and T-Bill-linked loans) in PVBs compared to PSBs suggests a faster rate transmission for PVBs. With the rate cut cycle, banks with higher proportions of repo-linked loans are likely to experience a quicker rate transmission compared to those with T-Bill-linked loans.

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